Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 410 - Housing Development Tax Credit Act (LSB 1871 SV)
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Fiscal Note Version - New

Description

Senate File 410 allows for the transfer of up to $3.0 million in housing business investment tax credits per year for projects started on or after July 1, 2005, in blighted or brownfield areas within an enterprise zone. The Bill requires that no more than $1.5 million is awarded to a single project in one calendar year. The Bill specifies, however, that any moneys that have not been allocated by the end of the calendar year may be prorated to more than one eligible applicant. Senate File 410 allows un-issued tax credits to be carried forward and used in subsequent fiscal years.

Background

1. Under current law, eligible housing business projects in an enterprise zone are eligible to receive tax credits and rebates under the Enterprise Zone Program. A provision in Senate File 410 allows the tax credits to be saleable for projects in a blighted or brownfield area within the enterprise zone. This provision will directly result in projects that otherwise would not have occurred. Up to $3.0 million in investment tax credits involving these projects may be transferred or sold in one fiscal year. However, no more than $1.5 million may be awarded to a single project in one calendar year unless by the end of the calendar year the full $3.0 million has not been fully allocated. Moneys that remain un-allocated at the end of the calendar year may be prorated to more than one eligible applicant.
2. In FY 2004, the Department of Economic Development approved 883 housing units generating an estimated $7.3 million in tax credits and $2.2 million in State sales and use tax rebates.
3. Each project that is eligible may receive a 10.0% investment tax credit per unit. The maximum credit per unit is 10.0% of an investment up to $140,000 per unit, or $14,000 per unit.
4. Tax credits cannot be utilized until a unit or units are completed and receive a certificate of occupancy.

Assumptions

1. Under the proposed legislation, the Department is aware of one project that will result in between 725 and 750 new housing units over a five-year period (145 - 150 units per year). In addition to this project, the Department estimates 50 additional housing units will result each year.
2. No other projects the size of the project mentioned above will occur as a result of the proposed legislation.
3. Like the project the Department is aware will occur, most of the projects that will occur as a result of SF 410 will be market-rate projects with unit costs equal to, or greater than $140,000 per unit.
4. The known project involving between 725 and 750 new housing units will result in $2.0 - $2.1 million in tax credits per year (145 to 150 units per year x $14,000). There will not be sufficient demand from other projects to utilize the full $3.0 million in tax credits during the calendar year. Therefore, this project will initially receive $1.5 million, and will receive the remaining $500,000 - $600,000 at the end of the year from un-allocated funds that remain.

Investment tax credits of $700,000 will be awarded for the additional 50 units the Department estimates will be completed each year. Investment tax credits resulting from the proposed legislation will total between $2.7 and $2.8 million per year.

5. Based on the FY 2004 data mentioned above, sales and use tax rebates are approximately 30.0% of the total investment tax credits awarded. The total sales and use tax rebate for the known project will be approximately $600,000 - $630,000 per year. The sales and use tax rebate for the additional 50 units will be approximately $210,000 per year. The total sales and use tax rebate resulting from the proposed legislation will be approximately $810,000 - $840,000 per year.
6. Projects resulting from SF 410 will begin on or after July 1, 2005. The project involving the 725 to 750 new housing units will be completed in five equal phases. Phase one will not be done until on or after July 1, 2006. It is assumed the other 50 housing units that may result would not be completed until after July 1, 2006.
7. The sales and use tax rebate will be utilized a year prior to the investment tax credits. Each investment tax credit award will have a 100.0% utilization rate and will be fully utilized in one fiscal year.

Fiscal Impact

Senate File 410 will reduce State General Fund revenues by approximately $810,000 to $840,000 in FY 2006. State General Fund revenues will be reduced by $3.5 to $3.6 million annually from FY 2007 – FY 2010. In FY 2011, State General Fund revenues will be reduced by an estimated $2.9 to $3.0 million and by $900,000 annually beginning in FY 2012 due to the completion of the project involving 725 to 750 new housing units.

Sources

Department of Economic Development
Legislative Services Agency

Dennis C Prouty

April 21, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.